**A Primer on Finance. Everything you ever wanted to know about Finance**

New York Stock Exchange- Market for the purchase/sale of stocks

Dow Jones Index- an index that includes 30 stocks that the owners of Dow Jones feel are representative of the economy at large. There are other indexes that exist today such as the Standard and Poor’s 500

Public Corporation- a Corporation where anyone can invest Some corporations are privately held—you can’t buy stock in them.

Share- a fraction of ownership in a corporation represented by a certificate that lists the number of shares of stock you own.

Broker- a person you use to purchase and sell stock. They charge a commission for each sale. Today there are online brokers that charge less than .1% of the transaction value but before the 1980s, the cost of the transaction was approximately ½% (a $10,000 purchase of stock would cost you $50.00)

Margin- when you borrow to buy shares of stock- using your own stock as the collateral

Collateral- property that backs a loan

Leverage- term used to describe the ability to purchase an asset without paying the full amount and so can improve your earnings

Mortgage- a loan generally from a bank that often helps you purchase a house

Interest- the additional monies you pay when you payback your loan. The lender usually charges a percentage of interest

Margin call- if your stock value goes below the amount you borrowed. In that case you will have to make up the difference between the amount borrowed and the current value of the stock. This may mean you need to liquidate your holding (convert it to cash).

Liquidity- refers to the ease in converting an asset you own or control into cash. Cash is the most liquid asset.

Questions

1. You purchase a 100 shares of stock in a company that sells for $10.00 a share. How much did you pay?
2. The stock dropped in value to $8.00 what is the loss you sustained?
3. You purchased stock on margin, where you pay only 10% . In scenario “A” how much money did you borrow to purchase the stock?
4. Given the 10% margin, at \_\_\_\_\_\_\_\_\_\_ per share you have doubled your money.
5. At \_\_\_\_\_\_\_\_ per share you’ve lost all the money you initially put out.
6. If you have a 10% margin and the stock rises in value to $30 per share what is your return on investment?
7. If you have all your money invested in stock and have no money in the bank what happens if your stock goes down in value how do you amass the funds to pay for the sum borrowed?
8. Just before the beginning of the 2008 recession what do you think was the average savings rate in the United States (in other words what proportion of an individual’s income went into a saving account? <http://www.tradingeconomics.com/united-states/personal-savings>
   1. <4%
   2. 8-10%
   3. 15-20%
   4. 30%
9. If a stock drops in value and many people own it, using borrowed money to purchase it, what do you think will happen to the value of the stock?
   1. How will that aggravate the problem?
10. If you, and others, lack the liquidity to pay off your stock loan what happens to the trading company you borrowed money from?
11. Most people who purchase a home get a mortgage to help them purchase their home. Post Depression, the standard amount accepted to finance a house is 80%. In addition to the actual house costs, the additional costs incurred in the buying and selling of a house are between 5 and 10% of the cost of a house
    1. Purchase Price--- 100,000
       1. Down payment------------- $20,000
       2. Mortgage ------------------- $80,000
       3. Other out of pocket expenses--- approximately $5,000 to $10,000 (double this amount for buying and selling
       4. If you buy and sell the house—how much will you need to receive on the sale in order to break even?
    2. How do you think a bank determines whether or not to give a person a mortgage?

* 1. (Assume a 6% interest rate) A mortgage is a loan, you to pay interest on the principal (amount still owed) on the loan. In real estate (property) the mortgage interest is amortized. An amortized mortgage means that in the beginning of the loan you pay mainly interest and only a small part principal

Go to <https://financial-calculators.com/amortization-schedule> to get an understanding of how much of your 1st year payments go toward the mortgage

Compare the monthly payment and amount paid off at the end of the 1st year at 6% with a 10% mortgage

* 1. Some loans become due in full if there is one default (failure to pay). What do you think happens if you fail to pay and the bank requires payment in full? How long can you stay in the house?

* 1. How do banks makes money?
  2. If the bank has several homes in foreclosures what happens to the banks income?
  3. If you were worried that the bank didn’t have sufficient funds what would you do?
  4. And….a vicious circle. <https://www.google.com/search?q=it%27s+a+wonderful+life+bank+run+clip&oq=its+a+wonderful+life+bank+run&aqs=chrome.5.69i57j0l5.7363j0j7&sourceid=chrome&ie=UTF-8&safe=active&ssui=on>
  5. What other items do you think people generally bought on credit in 1929?
  6. What do you think people buy on credit in 2017?

A few companies and their historical prices

Citigroup

<https://www.google.com/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8&safe=active&ssui=on#safe=strict&q=citi+stock>

Bank of America stock

<https://www.google.com/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8&safe=active&ssui=on#safe=strict&q=bank+of+america+stock>

Ford

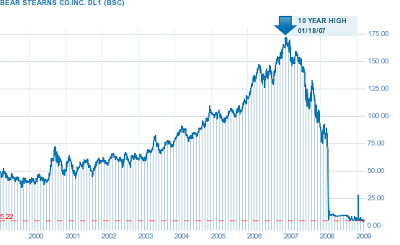
<https://www.google.com/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8&safe=active&ssui=on#safe=strict&q=Ford+stock>

General Electric

<https://www.google.com/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8&safe=active&ssui=on#safe=strict&q=general+electric+stock>

Apple

<https://www.google.com/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8&safe=active&ssui=on#safe=strict&q=apple+stock>





Although history may state the actual market crash occurred on Monday, October 6th, the market experienced eight consecutive trading days of negative movement starting on October 1, 2008.  The table below shows the decline of the Dow Jones Industrial Average from October 1st through October 10th.

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **DJIA Close** | **Point Change** | **% Change** |
| October 1, 2008 | 10,831.07 | -19.59 | -0.18% |
| October 2, 2008 | 10,482.85 | -348.22 | -3.22% |
| October 3, 2008 | 10,325.38 | -157.47 | -1.50% |
| October 6, 2008 | 9,955.50 | -369.88 | -3.58% |
| October 7, 2008 | 9,447.11 | -508.39 | -5.11% |
| October 8, 2008 | 9,258.10 | -189.01 | -2.00% |
| October 9, 2008 | 8,579.19 | -678.91 | -7.33% |
| October 10, 2008 | 8,451.19 | -128.00 | -1.49% |
|  |  |  |  |

<http://www.macrotrends.net/1319/dow-jones-100-year-historical-chart>

